



Teachers' Retirement System of the State of Illinois

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Statement from

Dick Ingram, Executive Director

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Next Steps in the Pension Reform Debate

Leaders in the Illinois House of Representatives announced on May 30 that they are suspending any further action on a proposed restructuring of pensions for educators and other public employees until this fall, at the earliest. Teachers' Retirement System fully supports this decision and pledges that it will work cooperatively with all involved parties to realize the best outcomes for our 372,000 members.

On May 26, TRS raised a number of questions about a pension restructuring proposal contained in Senate Bill 512 during a hearing by the House Personnel and Pensions Committee. Senate Bill 512 is a complex proposal addressing an important issue and it has generated much interest and passionate opinion. As both House Republican Leader Tom Cross of Oswego and House Speaker Michael Madigan of Chicago noted during their comments on the bill, a vote to support or oppose the bill is difficult and "not for the faint of heart." As such, Senate Bill 512 requires a full and thorough vetting.

The final language to SB 512 was unveiled only last week. Since then, TRS staff and our actuaries have been working diligently to provide a basic, preliminary analysis. As fiduciaries responsible to all TRS members, first and foremost we must ensure that any proposal provides TRS with adequate contributions from state government to support the benefits earned by members. Second, we must ensure that we can fairly and effectively administer those benefits in the years ahead.

During a careful review of the funding scheme proposed in the bill, we found that one major provision – tying the level of future state government contributions for TRS to a set percentage of annual state revenues – is a new and untested funding mechanism. As far as we are aware, this mechanism has not been used before by any public pension plan in the country and does not conform to current accounting and actuarial standards. Despite extraordinary efforts, our actuaries have not yet been able to determine the full implications of this funding scheme.

Similarly, Senate Bill 512 sets up choices that would have to be made by active TRS members in a proposed three-tier benefit structure. This new structure affects both the benefit members receive and the cost of that benefit to both members and the state. Developing an analysis of the benefits and the costs is a very complicated task. As noted during the hearing on Senate Bill 512, this vital analysis had not been completed by supporters prior to the committee debate. Subsequently, an initial analysis of Senate bill 512 by TRS staff and our actuaries revealed that the three-tier benefit structure as proposed would likely create unintended consequences that would counter the stated aims of the sponsors.

It is prudent to allow adequate time to fully evaluate the effects and implications of Senate Bill 512 as currently written. As the fiduciary charged with administering any pension related legislation, TRS supports the decision of the bill's sponsors to continue discussions and analysis during the summer. TRS will continue to do what it has been doing for the last five months: work cooperatively with the General Assembly and be an honest broker of information, data and analysis in this important discussion.